Washington State Department of
Labor & Industries

Workers' Compensation Advisory Committee

September 16, 2013

Agenda

Time	Topic	Presenter(s)
9:00am-9:15am	**Welcome** • Introductions • Safety Message – Eye on Safety • Debrief from Conning Presentation	Joel Sacks Vickie Kennedy
9:15am-9:45am	**Financial Update**	Sharon Elias
9:45am-10:30am	**2014 Rates**	Joel Sacks
10:30am-10:45am	**BREAK**	All
10:45am-11:45am	**Results L&I: Reducing costs and improving outcomes**	Joel Sacks Vickie Kennedy
11:45am-11:55am	**Board of industrial insurance appeals (BIIA) Update**	Dave Threedy
11:55am-12:00pm	**Closing Comments** • Adjourn	Joel Sacks Vickie Kennedy

Washington State Department of Labor & Industries

WELCOME & INTRODUCTIONS

Joel Sacks,
Director

Vickie Kennedy,
Assistant Director for Insurance Services

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SAFETY MESSAGE

Eye on Safety

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DEBRIEF FROM CONNING PRESENTATION

Joel Sacks,
Director

Vickie Kennedy,
Assistant Director for Insurance Services

Washington State Department of
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INDUSTRIAL INSURANCE (STATE) FUND FINANCIAL OVERVIEW

PRELIMINARY STATUTORY FINANCIAL INFORMATION
FISCAL YEAR 2013 – FOURTH QUARTER
JULY 2012 THROUGH JUNE 2013

Sharon Elias
Chief Accounting Officer

Washington State Department of Labor & Industries

Fiscal Year Financial Highlights

Overall, the performance of the state fund during fiscal year 2013 is positive. The contingency reserve has increased by $37 million, from $580 to $617 million from July 1, 2012 through June 30, 2013. Although economic growth remains modest, it resulted in:

– Earning more premiums than projected liabilities for the current accident year.
– A strong stock market that led to unrealized gains.

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State Fund Results

"Net Income"

July 2012 through June 2013 expenses exceeded revenues resulting in a net loss of ($204) million, mainly due to changes in assumptions in structured settlements and the non-pension discount rate.

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Loss ($204M)

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Insurance Operations

(in millions)

		Fiscal Year Ended	
		Preliminary June 30, 2013	June 30, 2012
We took in (Premiums Earned)	+	$ 1,586	$ 1,463
We Spent (Expenses Incurred)			
Benefits Incurred (both new & existing claims)		2,162	1,957
Claim Administrative Expenses		146	185
Other Insurance Expenses		75	71
Total Expenses Incurred	-	2,383	2,213
Net Loss from Insurance Operations	=	**$ (797)**	**$ (750)**

An operating loss is normal for workers compensation insurers who routinely rely on investment income to cover a portion of benefit payments.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income

Premiums Earned

July 2012 through June 2013
(in millions)

	Fiscal Year Ended		
	Preliminary June 30, 2013	**June 30, 2012**	**Difference**
Standard Premiums Collected	*1,708*	*1,615*	
***Less** Retrospective Rating Adjustments*	*(133)*	*(140)*	
Net Premiums Collected	**1,575**	**1,475**	
Changes in Future Premiums Amounts To Be Collected	**13**	**20**	
Changes in the future Retrospective Rating Adjustment Refunds	**(2)**	**(31)**	
Net Premiums Earned	**1,586**	**1,464**	**122**

Increase of $122 million -- mainly driven by increase in hours reported.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income

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Benefits Incurred

July 2012 through June 2013
(in millions)

	Fiscal Year Ended		
	Preliminary June 30, 2013	**June 30, 2012**	**Difference**
Net Benefits Paid	**1,560**	**1,547**	
Planned Benefits Liabilities	*311*	*221*	
Unplanned Benefit Liabilities	*291*	*189*	
Total Change in Benefit Liabilities	**602**	**410**	
Net Benefits Incurred	**2162**	**1,957**	**205**

$291 million of unplanned changes includes:
- ($273 M): Reduction in number of future expected Total Permanent Disability pensions granted
+ $244 M: A 75% reduction in the saving assumptions regarding structured settlements
+ $132 M: Increase in the expected number of future claims receiving medical payments for older claims
+ $33 M: Difference between actual pensioner mortality and expected mortality
+ $77 M: Change in the non-pension discount rate from 2.0 to 1.5%
+ $78 M: Other changes

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

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Investment Income

(in millions)

		Fiscal Year Ended	
		Preliminary June 30, 2013	June 30, 2012
Investment Income Earned from Dividends and Interest	+	$ 466	$ 482
Realized Gains from Bonds (Fixed Income Investments) Sold	+	74	32
Realized Gains from Stocks (Equity Investments) Sold	+	13	516
Total Investment Income	=	$ 553	$ 1,030

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income

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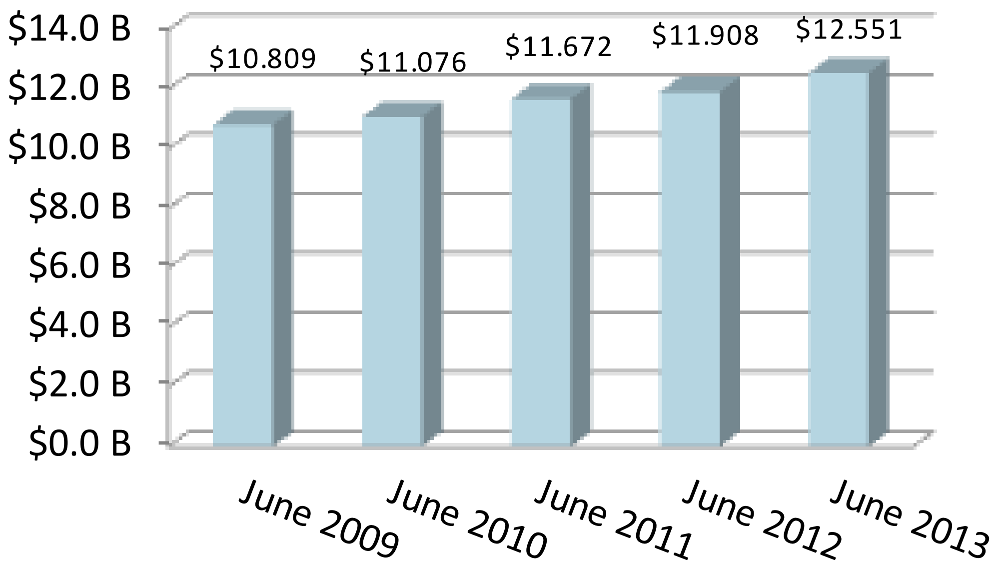
Total Investments

(rounded to billions)



Note: Securities lending collateral not included

Investments grew $643 million in the past twelve months and ended at $12.6 billion as a result of bond investment income and a strong stock market.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income

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Other Revenues & Expenses

(in millions)

		Fiscal Year Ended Preliminary June 30, 2013	June 30, 2012
Fines, Penalties, Interest, and Other Revenues	+	$ 49	$ 51
Net of Self Insurance Reimbursements and Expenses **	+	42	81
Non-Insurance Expenses	-	51	46
Net of Other Revenues and Expenses	**=**	$ 40	$ 86

Note: For example, non-insurance expenses include DOSH, SHARP, Employment Standards, Apprenticeship, and Department of Health.

** This number does not include SI benefits incurred.

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

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Results of Operations

July 2012 through June 2013

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income (Loss)
($797) million	+	$553 million	+	$40 million	=	($204) million

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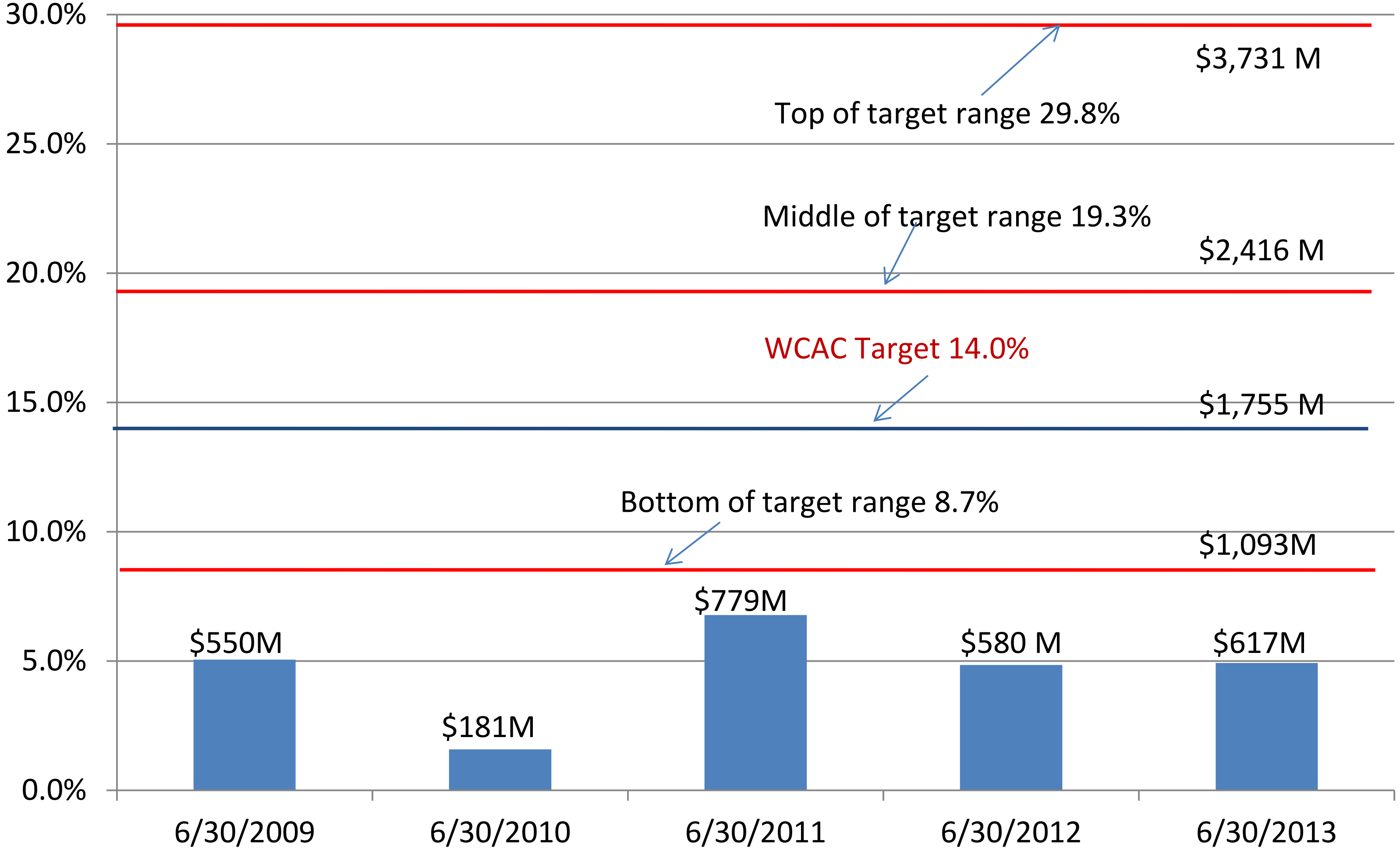
How Did the Contingency Reserve Change?

Change $37 million

Beginning Contingency Reserve as of June 30, 2012	+	Net Income (Loss)	+	Change in Unrealized Capital Gain/Loss	+	Other (Change in nonadmitted assets)	=	New Contingency Reserve as of June 30, 2013
$580 Million	**+**	**($204) Million**	**+**	**$266 Million**	**+**	**($25 Million)**	**=**	**$617 Million**

*Note: Unrealized capital gain/loss are not a part of net income because we have not "**cashed in**" our profits or losses.*

Combined Contingency Reserve vs. Targets



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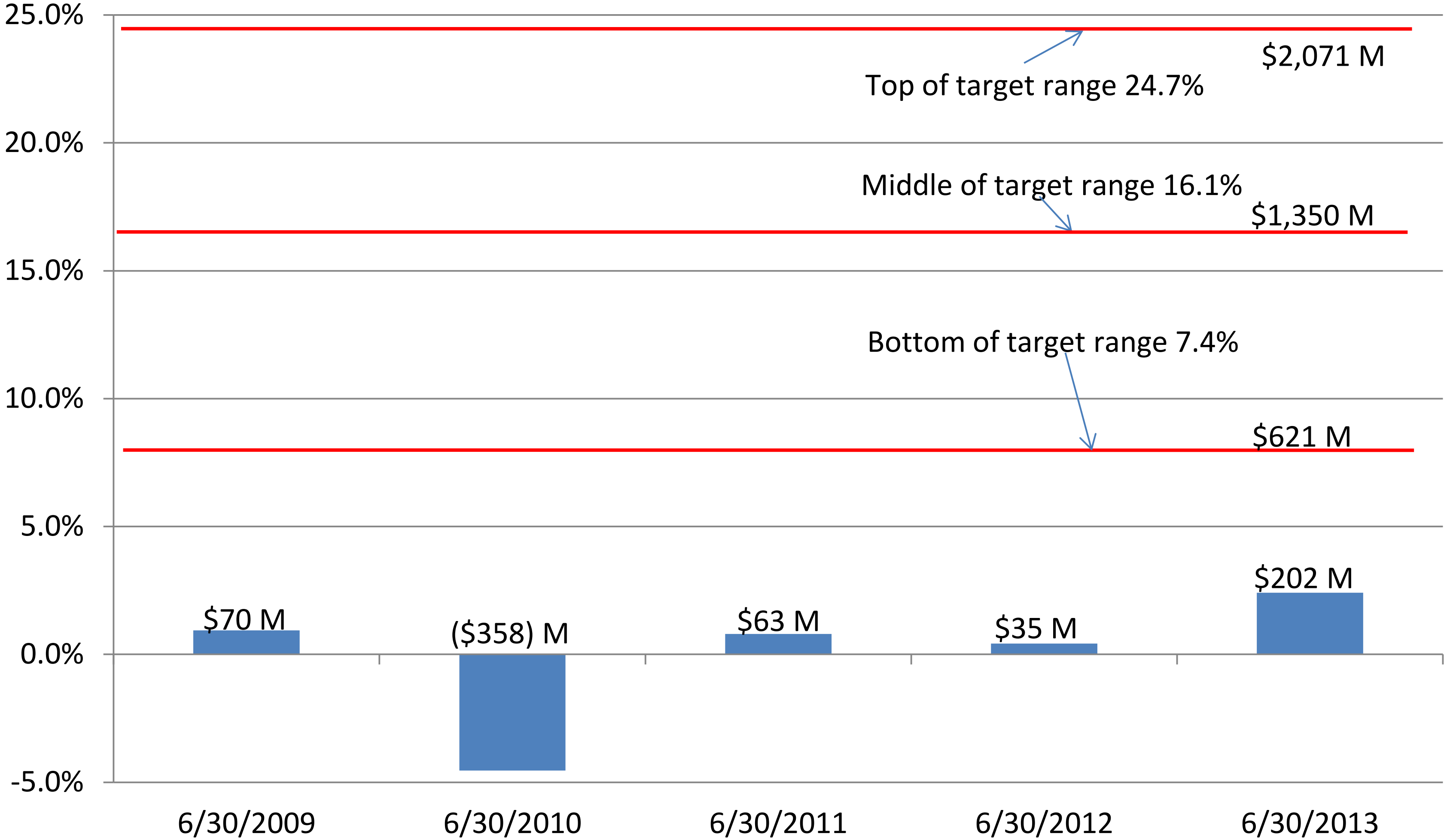
Accident & Pension Contingency Reserve vs. Targets



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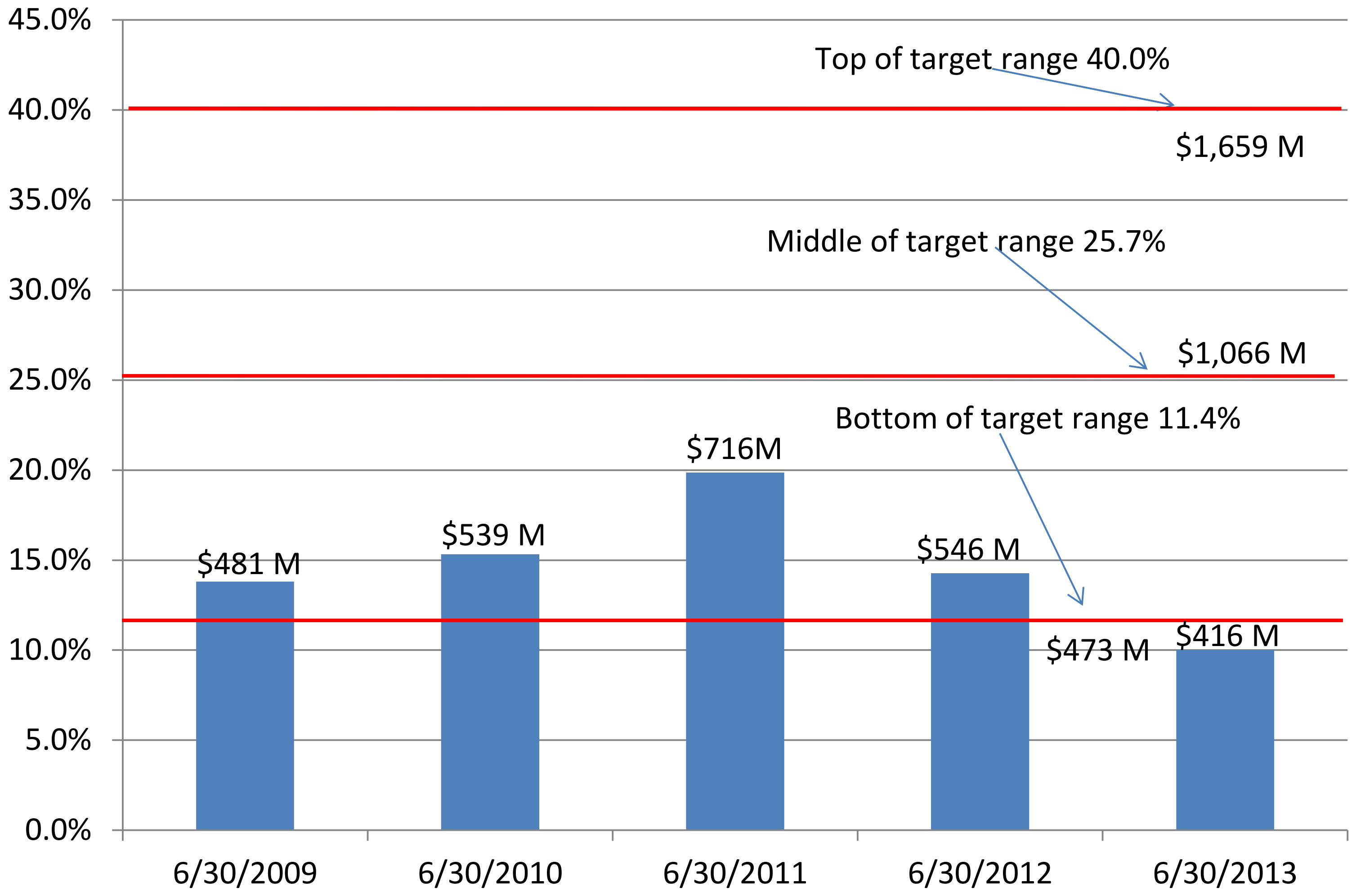
Medical Aid Contingency Reserve vs. Targets



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Key Financial Ratios

as a percentage of premium earned

as of June 30, 2013

	Ratios	State Fund	Industry Forecast*	State Fund excluding change in Structured Settlement savings
A	Benefit (Loss Ratio)	136.3%	63.4%	120.9%
B	Claim Administration Expense (CAE) Ratio	9.2%	14.6%	9.2%
	Sub-Total: Benefit and Claim Administration Expense Ratios	145.5%	78.0%	130.1%
C	Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.7%	26.0%	4.7%
D	**Combined Ratio (A+B+C)**	**150.2%**	**106.5%**	**134.8%**
E	Investment Income Ratio	29.4%	18.2%	29.4%
F	**Operating Ratio (D-E)**	**120.8%**	**88.3%**	**105.4%**

*** Industry forecast for 2013Q2 was provided by Conning**

Note: a ratio of 100% would indicate that costs = premium for period

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Questions & Comments

Contact Sharon Elias, Chief Accounting Officer, at 360-902-5743 or email at: elia235@lni.wa.gov

Thank You!

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Historical Investment Yield — the annual rate of return on investments expressed as a percentage of average total investments

	Fiscal Year Ended					
	Preliminary June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008
Investment Yields						
Investment Income/Average Invested Assets	3.8%	4.1%	4.3%	4.5%	4.7%	4.9%
Realized Gain (Loss)/Average Invested Assets	0.7%	4.6%	0.6%	0.2%	(0.4%)	3.2%
Unrealized gain (Loss)/Average Invested Assets	2.1%	(4.6%)	3.6%	1.6%	(3.3%)	(3.9%)
Total Investment Yields	6.6%	4.1%	8.5%	6.3%	1.0%	4.2%

Unrealized gain (loss) changes are impacted mostly by stock market results.

Note: Unrealized gains and losses are commonly known as "paper" profit or losses which imply that they have not been "cashed in."

Quarterly Change in Benefit Liabilities

(in millions)

	Quarter Ended			
	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013
Beginning Estimated Benefit Liabilities	**$ 11,203**	**$ 11,210**	**$ 11,216**	**$ 11,618**
Change Benefit Liabilites for injuries occuring 6/30/12 and prior				
Discount accretion	92	89	87	85
Other developments:				
Change in Structured Settlement Assumptions	14	(34)	262	2
TPD Pension Development	(92)	(95)	(16)	(70)
Medical development	(16)	(20)	52	116
All other development on prior liabilities	13	21	39	38
Total other development	(81)	(128)	337	86
Change in non-pension discount rate	-	77	-	-
Total Change in Benefit Liabilities for injuries occuring 6/30/12 and prior	**11**	**38**	**424**	**171**
New benefit liabilities for injuries occurring 7/1/12 and after	**367**	**372**	**341**	**415**
Claim Payments in 3 months	**(375)**	**(409)**	**(370)**	**(406)**
New Self insurance 2nd injury pension awards	**4**	**5**	**7**	**8**
Ending Benefit Liabilities	**$ 11,210**	**$ 11,216**	**$ 11,618**	**$ 11,806**
Change in benefit liability	**$ 7**	**$ 6**	**$ 402**	**$ 188**

$291 million unplanned changes

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2014 RATES

Joel Sacks,
Director

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Rate Setting Strategy

4 key components:

1. Steady and predictable rates.
2. Benchmark against wage inflation (this happens automatically in other states).
3. Steadily rebuilding reserves to protect against unexpected changes (over the next 9-years).
4. Lower costs while focusing on better outcomes for injured workers.

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Proposed 2014 Premium Rate Increase of 2.7% which is less than 2 cents per hour

Fund	Average 2013 Hourly Rate	2014 Proposed Hourly Rate	2014 Proposed % Change
Accident	$0.344	$0.344	0.0%
Medical Aid	$0.184	$0.204	10.6%
Supplemental Pension	$0.093	$0.091	-2.0%
Stay-at-Work	$0.008	$0.007	-8.6%
Overall	**$0.628**	**$0.645**	**2.7%**
Net per $100 of payroll	**$2.24**	**$2.23**	**-0.2%**

Current projected 2014 break-even rate is -1.0%

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Steady and Predictable Rates

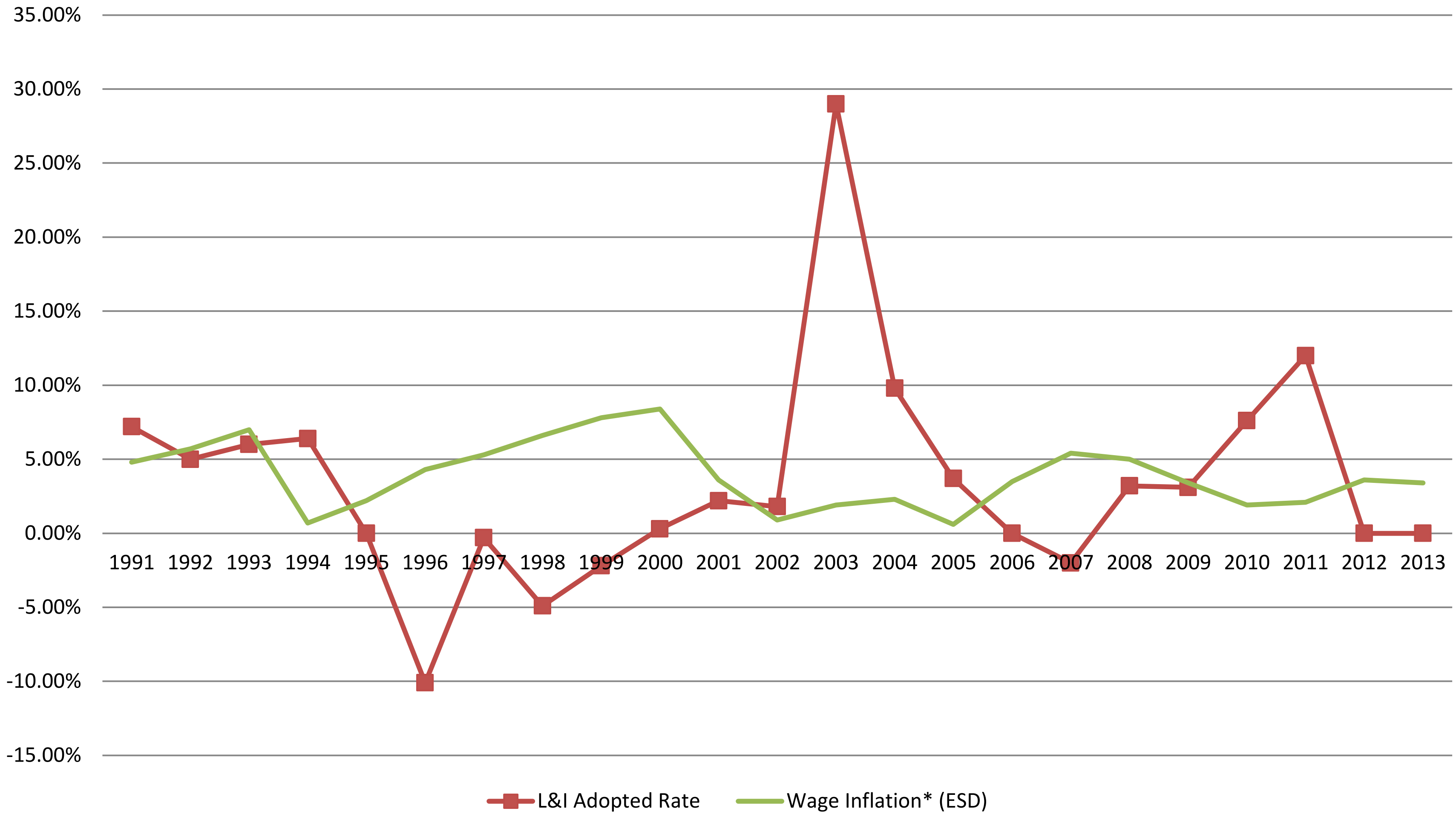
- Historically adopted rates have been unpredictable
- Long-term goal is a 0% change on payroll basis

Rating Year	Adopted Rate	Per $100 of Payroll	% Change on payroll basis
2014 Proposed	**2.7%**	**$ 2.23**	**-0.2%**
2013	0.0%	$2.24	-1.4%
2012	0.0%	$2.27	-2.1%
2011	12.0%	$2.32	8.1%
2010	7.6%	$2.15	5.0%
2009	3.1%	$2.04	1.5%
2008*	3.2%	$2.01	0.4%
2007*	-2.0%	$2.01	-5.5%
2006	0.0%	$2.12	-4.4%
2005	3.7%	$2.22	-0.5%
2004	9.8%	$2.23	8.6%
2003	29.0%	$2.05	26.4%
2002	1.8%	$1.62	0.6%
2001*	-2.2%	$1.62	-2.5%
2000*	0.3%	$1.66	-2.4%
1999	-2.2%	$1.70	-9.3%
1998	-4.9%	$1.87	13.3%
1997	-0.3%	$2.16	-4.6%
1996*	-10.1%	$2.26	-15.8%
1995	0.0%	$2.69	-5.6%
1994	6.4%	$2.85	3.3%

*Indicates premium refunds/rate holiday

Source: Dept. of Labor & Industries

Benchmark rates against wage inflation



*Indicates wage inflation rate known when rates were set

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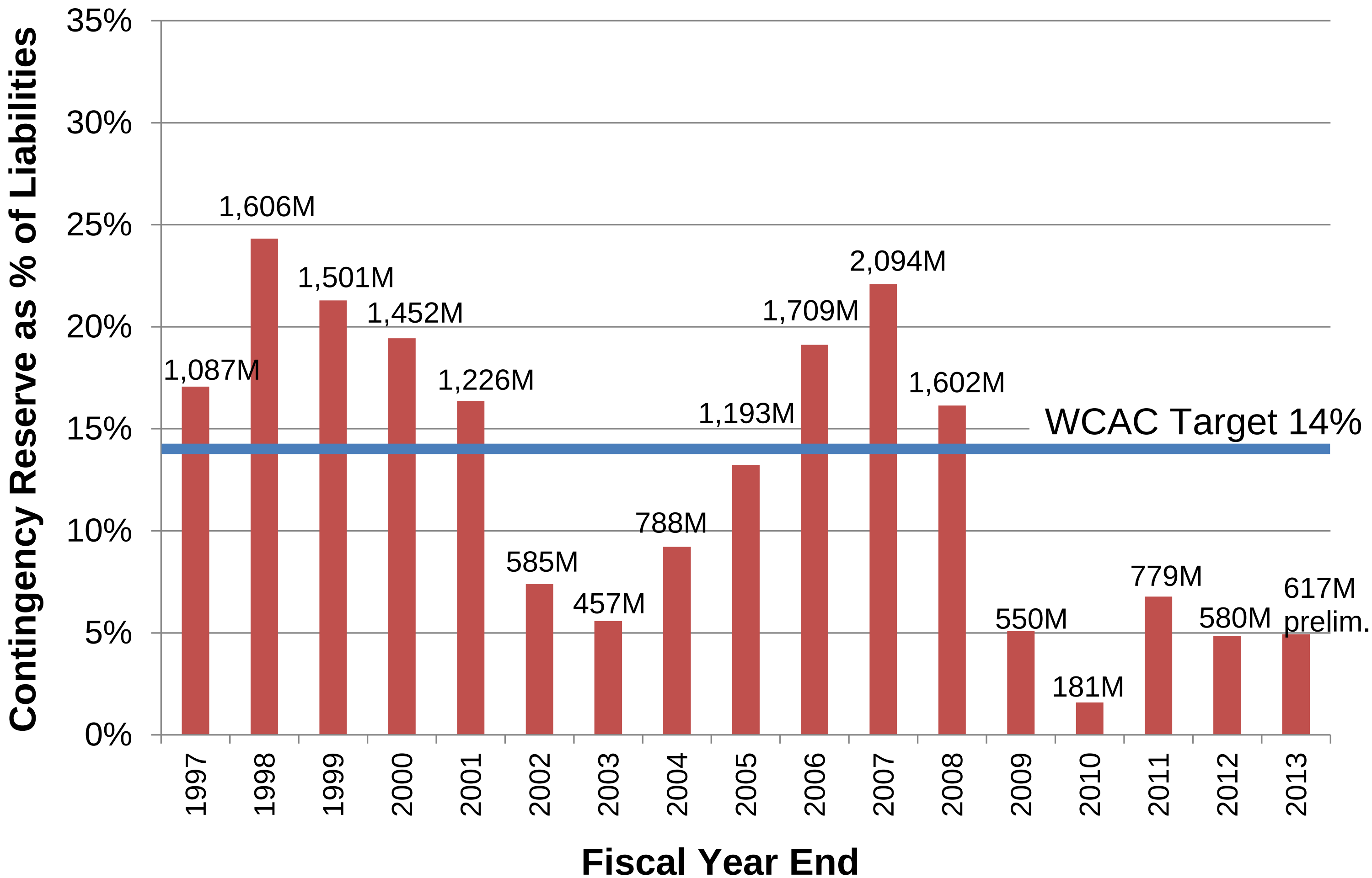
Steadily Rebuild Reserve—funds have been below the target policy range since 2009



Source: Dept. of Labor & Industries

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Key Factors Changing the Contingency Reserve (July 1, 2012 to June 30, 2013)

Impact	Drivers	Amount
↓	Discount Accretion on Benefit and Claims Administrative Expense (CAE) Liabilities	$363 million
↓	Reduction in Structured Settlement Savings	$244 million
↓	Change in the Non-Pension Discount Rate on Benefit and Claims Administrative Expense (CAE) Liabilities	$79 million
↓	Change Prior Year Retrospective Premium Refund Estimates	$30 million
↑	Investment Income Anticipated by Reserve Discount	$363 million
↑	Unexpected Gains on Investments	$254 million
↑	Other Favorable Development on Benefit and CAE Liabilities	$37 million
↑	Premium rates higher than needed to cover new liabilities	$99 million

- Total Decrease $716 M

= Net Change $37 M

+ Total Increase $753 M

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9-Year Reserve Benchmarks (as of 9/16/13)

9-Year Interim Targets			
Year	**Contingency Reserve Target (range)**	**Pension Discount Rate (PDR) Target (range)**	**Contingency Reserve (CR) Yearly Goal (displays steady growth)** dollars in millions
2013 *(projected as of 12/31/2013)*	**4.9%**	**6.5%**	**$646 (projected)**
2014	5 - 7%	6.5 - 6.3%	$ 652 to $902
2015	6 - 8%	6.3 - 6.2%	$ 797 to $1,032
2016	7 - 9%	6.2 - 6.0%	$ 957 to $ 1,167
2017-2018	8 - 11%	5.9 - 5.5%	$ 1,122 to $ 1,452
2019-2020	10 - 13%	5.4 - 4.7%	$ 1,472 to $1,742
2021-2022	13 - 15%	4.7 - 4.5%	$ 1,757 to $2,047
9-Year Contingency Reserve Goal			**$2,047**

Each tenth of a percent the PDR drops, the CR could reduce between $50 to 70 million.

Reserve projected to grow in 2014

Impact to Reserve	Drivers	Amount (range) dollars in millions		
	Estimated Reserve as of 12/31/13	$646		
⇩	Reduce Pension Discount Rate	($58)	to	($88)
⇧	2.7% Proposed Premium Rate Increase	$75		$95
⇧	Estimated Cost Savings from Initiatives	$35	to	$70
		$698	**to**	**$723**

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Lower Costs while Focusing on Better Outcomes

- Help injured workers heal and return to work as soon as possible.
- Improve medical outcomes.
- Improve claims management system to eliminate delays based on Lean management principles.
- Safety Initiatives.
- Make it easier to do business with L&I.

BREAK

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RESULTS L&I: REDUCING COSTS & IMPROVING OUTCOMES

Joel Sacks,
Director

Vickie Kennedy,
Assistant Director for Insurance Services

Washington State Department of
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Governor's Results Washington

Governor's Goals:

- World-class education
- Prosperous economy
- Sustainable energy & clean environment
- Healthy & safe communities
- Efficient, effective & accountable government

Governor's Results Washington

SAFE PEOPLE Help keep people safe in their homes, on their jobs and in their communities		
Public	**Traffic**	**Worker Safety**
Decrease the rate of return to institutions for offenders from 27.8% to 25.0% by 2020	Decrease the number of traffic-related fatalities on all roads from 454 in 2011 to zero in 2030	Decrease workplace injury rates that result in missing 3 or more days from work from 376 per 100,000 full-time workers to 354 per 100,000 full-time workers by 2016

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Five goals for L&I

1. Make workplaces safe
2. Help injured workers heal and return to work
3. Make it easy to do business with L&I
4. Help honest workers, businesses and providers by cracking down on the dishonest ones
5. Ensure L&I is an employer of choice

Goal 1: Make workplaces safe

Key Focus Areas:

- Reduce injury rate of workplaces L&I visits.
- Foster a culture of safety at workplaces.

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Goal 3: Make it easy to do business with L&I

Key Focus Areas:

- Provide information to our customers that our customers can easily understand and access.
- Decrease burden (time and costs) for customers to do business with us.
- Improve specific processes based on feedback from customers on their needs/expectations.

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Goal 4: Help honest workers, businesses and providers by cracking down on the dishonest ones

Key Focus Areas:

- Identify intentional bad practices.
- Develop and implement specific solutions to address the bad practices.
- Communicate what we've done.

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Goal 5: Ensure L&I is an employer of choice

Key Focus Areas:

- Promote a culture and environment that improves safety and wellness.
- Promote a culture where management and employees partner to solve problems and improve outcomes for customers.
- Increase the opportunities for employees to learn, grow, and achieve job satisfaction.

Goal 2: Help injured workers heal and return to work

Key Focus Areas:

- Create a culture of return to work.
- Reduce the development of preventable permanent disability.
- Collaborate with internal and external stakeholders to reduce system delays and improve the customer experience in the first six-months of the claims process.

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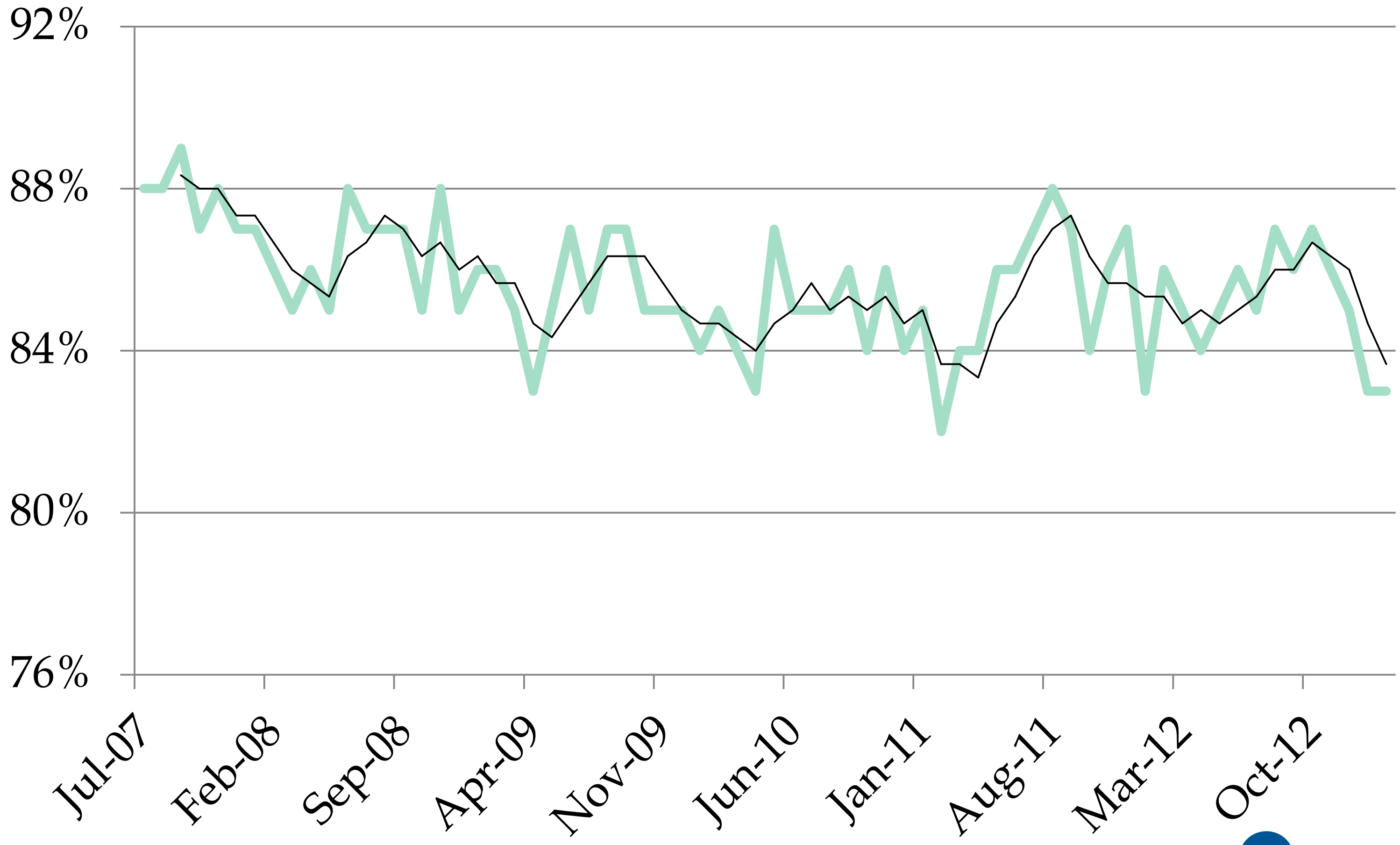
Percent of injured workers who RTW for 30 days or more in the first 6 months of a claim



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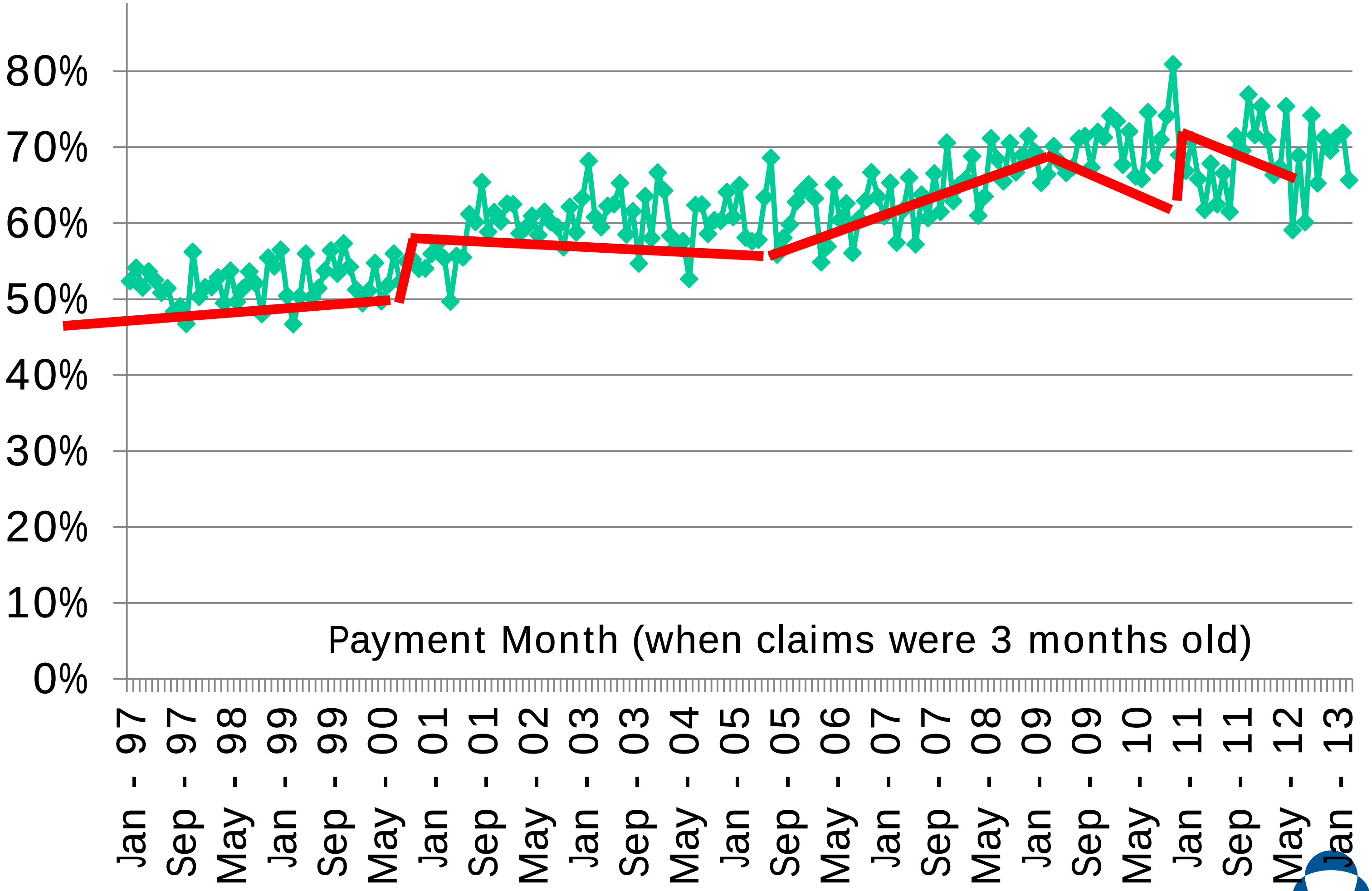
3 to 6 Month Persistency Rate

or percentage of active 3-month time-loss claims still actively collecting time-loss benefits 3 months later at 6 months.



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Create a culture of return to work

- Claims Processor Pilot
  - Claim processors remove tasks from claim managers' duties so they can focus on actions to assist injured workers and employers.

- Re-Employment Specialists Pilot
  - Two ESD WorkSource employment specialists housed in L&I Claims Program.

Create a culture of return to work

- Return-to-Work: Data-driven approach
  - Identify critical elements that indicate workers are at risk of not returning to work.
  - Return-to-Work ‘Future State’ pilot: Early (day one) coordination of RTW services to employers and injured workers on high-risk claims.

Create a culture of return to work

- Everett WorkSource Pilot
  - L&I contracted with Employment Security Department to provide assistance through WorkSource for injured workers who cannot return to the employer of injury but are motivated to return to work.

Reduce the development of preventable permanent disability

- Increase provider adoption of COHE best practices and participation in the medical network's Top Tier.

- Find ways to identify psycho-social factors preventing RTW.
  - Activity Coaching

- Use standard criteria when making referrals to ONCs, second opinions, IMEs.

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Collaborate with stakeholders to reduce system delays and improve the customer experience in the first 6 months of the claims process

- Eliminate process steps that don’t create value for customers.
- Implement standard work for all key processes (e.g., AWA).
- Develop strategies to reduce delays in receiving information for RTW from medical providers.

Questions

BOARD OF INDUSTRIAL INSURANCE APPEALS (BIIA) UPDATE

Dave Threedy, Chair

Washington State Department of Labor & Industries

CLOSING COMMENTS

Joel Sacks,
Director

Vickie Kennedy,
Assistant Director for Insurance Services

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ADJOURN